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## Panel: State of Public Pensions and Its Impact on Collective Bargaining

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# State of Public Pensions and Its Impact on Collective Bargaining

**43rd Annual Conference  
National Collective  
Bargaining Center  
April 5, 2016**



**Diane Oakley  
Executive Director**



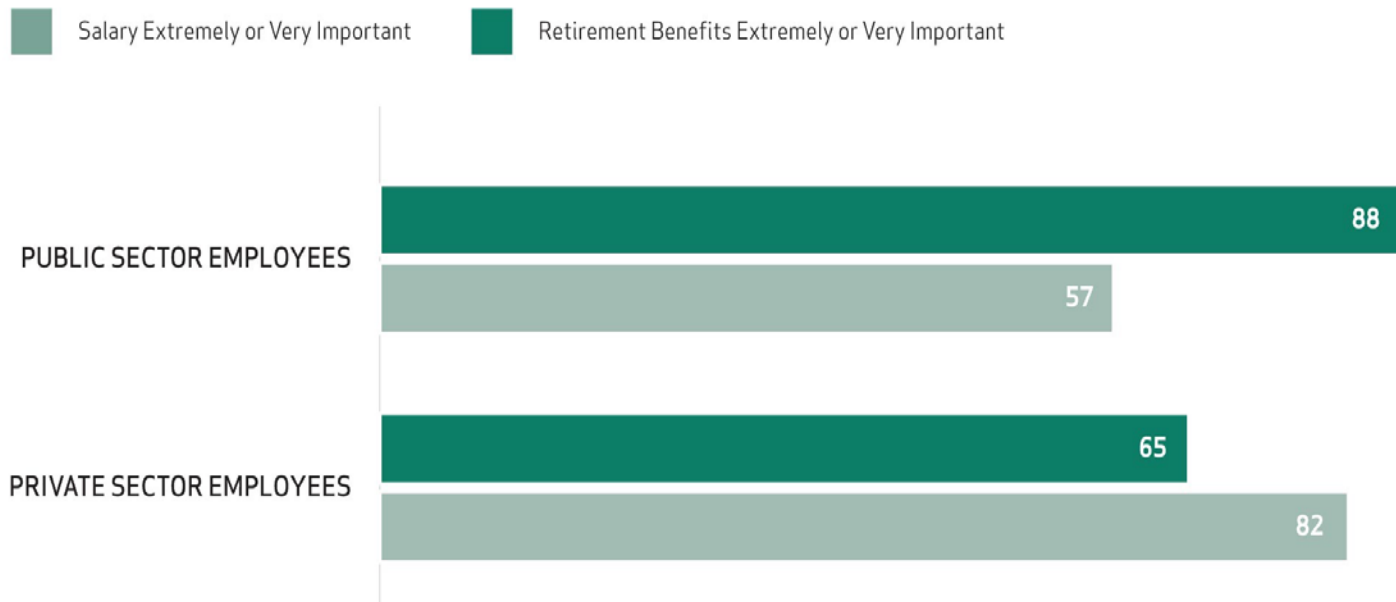
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# Retirement Benefits Important Component of Compensation

**Figure 24: Retirement Benefits are Significantly More Important to Public Workers as Compared to Private Sector Workers**

When making job decisions, how important are the following job features to you?

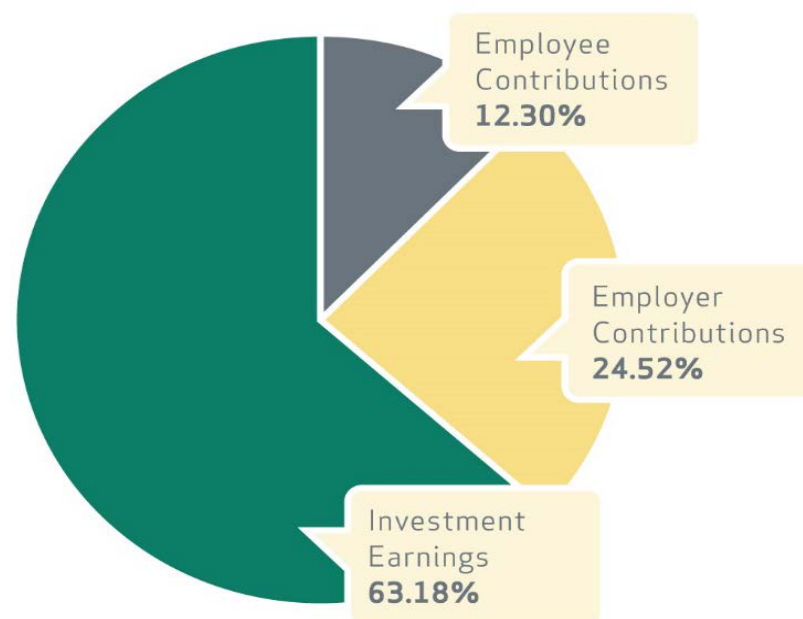


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# Financing of Public Pension Plans, 1993-2012

## Sources of pension fund receipts.

- **12.3% Employee**
- **24.5% Employers**
- **64.2 % Investments**



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# How Are Contributions Public to Defined Benefit Determined?

- The Annual Required Contribution (ARC) is determined by actuarial analysis and consists of....

$$\text{Normal Cost} + \text{Payments on any Unfunded Liability} = \text{ARC}$$

- Key Factors: Investment Return Assumption, Amortizations Period and Method, Actuarial Cost Method.



# What are Funding Gaps?

## Where do they Come From?



1. Contributions into the plan are not adequate to cover promised benefits
2. Sharp downturns in financial markets



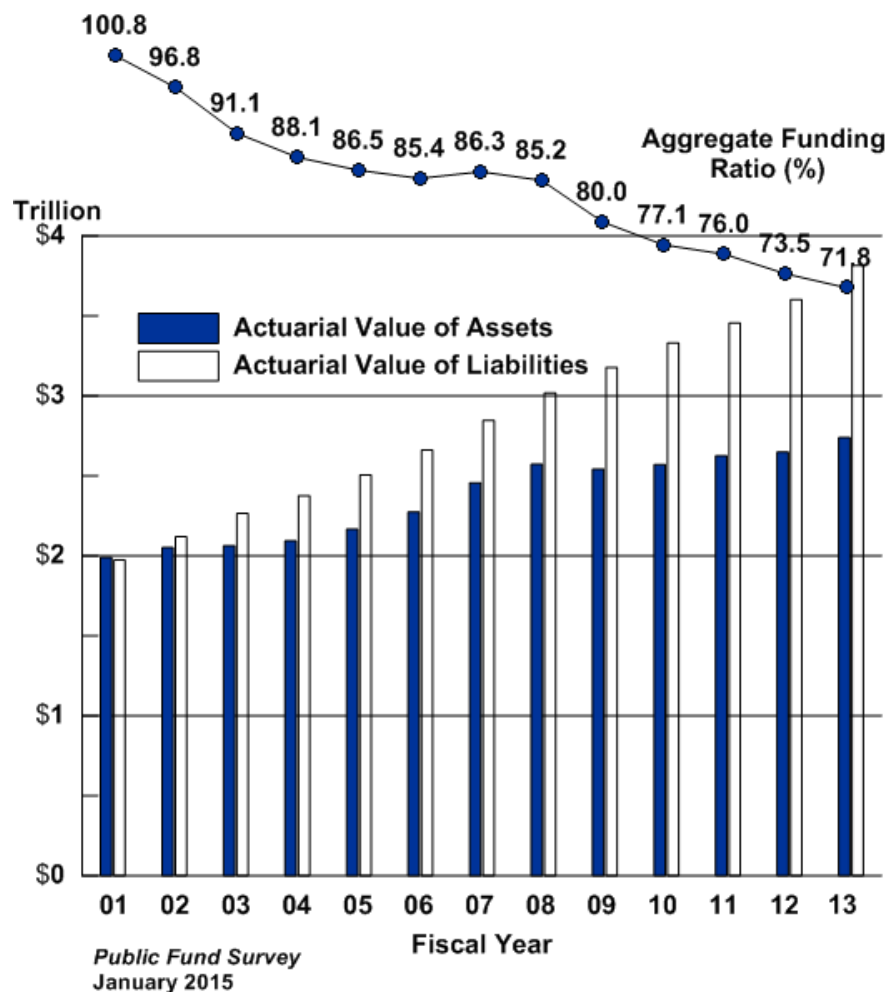
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# Lessons from Well-Funded Public Pensions: Key Findings

1. Employers paid pension contributions equal to the full ARC, and that at least equal the normal cost;
2. Employee contributions to help share the plan cost;
3. Benefit improvements that are actuarially valued before adoption and properly funded upon adoption;
4. COLAs granted responsibly;
5. Anti-spiking measures that ensure actuarial integrity, transparency;
6. Economic actuarial assumptions that can reasonably be expected to be achieved long term.



# Funding of Public Pension Plans



Actuarial value  
of assets and  
liabilities, and  
funding level,  
FY 01 to FY 13



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# What Caused Recent Public Pension Funding Shortfalls

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During the period 2001 to 2013, the follow items contributed to the underfunding of public pensions.

- Investment returns lower than assumed return was responsible for **60.4 percent** of unfunded liability.
- Employer pension contributions lower than the Normal Cost plus interest on the unfunded actuarial liability caused **23.7 percent** of the unfunded liability.
- Actuarial experience worse than assumed added 2.4 percent of the unfunded liability.
- Benefit changes had a small (0.8%) net reduction in the unfunded liability .



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# Actuarial Required Contributions Increased from \$28b to \$93b

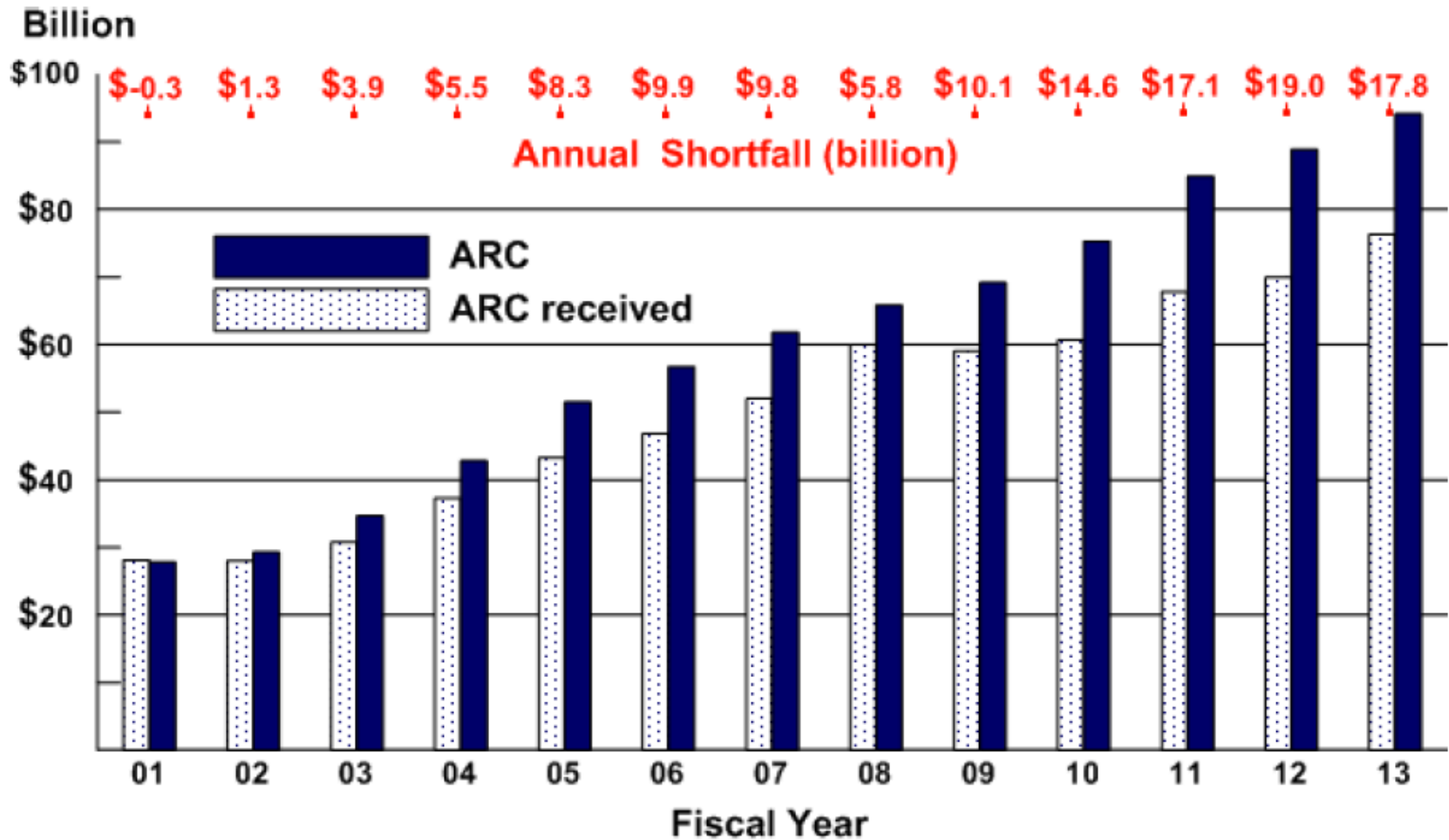


Figure A. Combined Annual Required Contribution and ARC received, for statewide plans

# States' Funding of Pensions – Half Paid 95% or More

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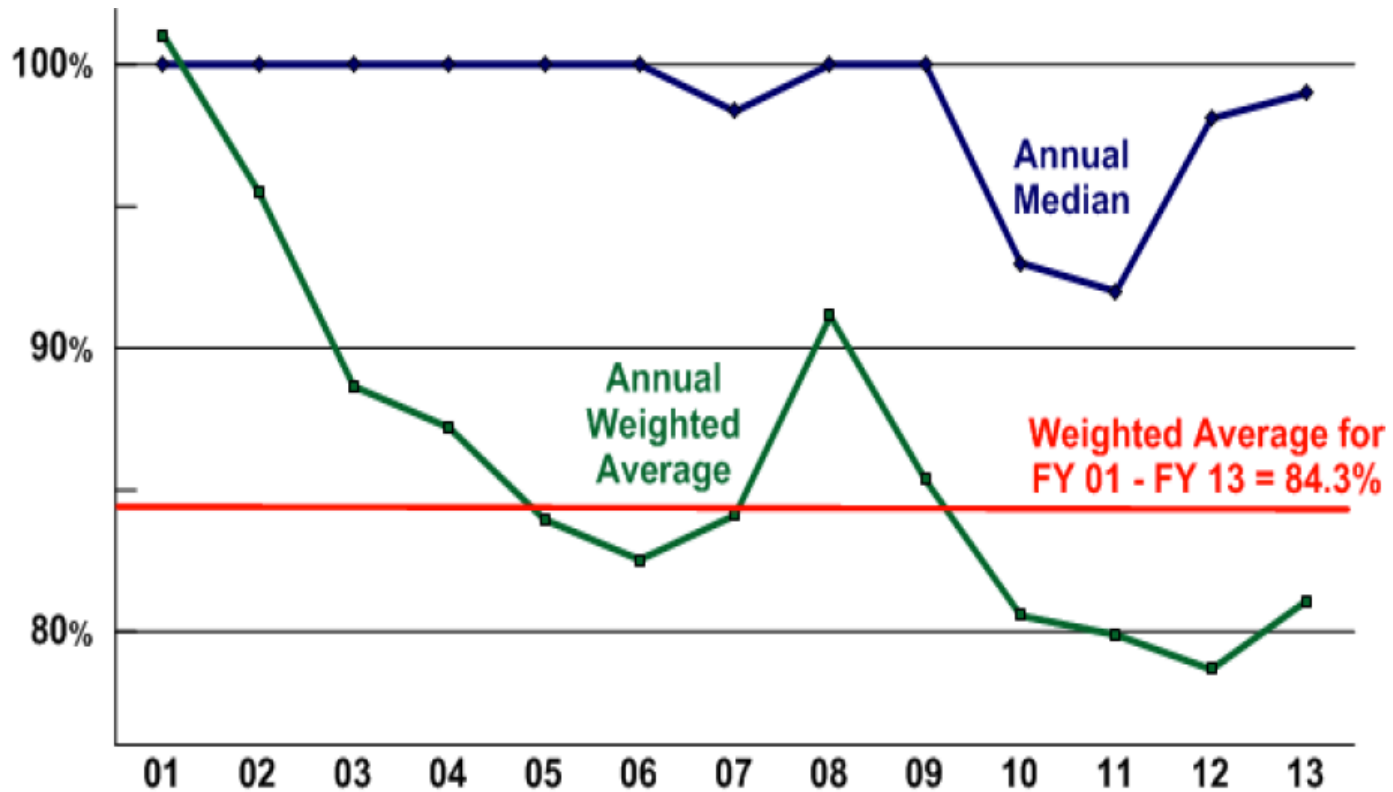


Figure B. Median and annual and weighted average contributed to statewide plans



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# State-by-State Funding of ARC

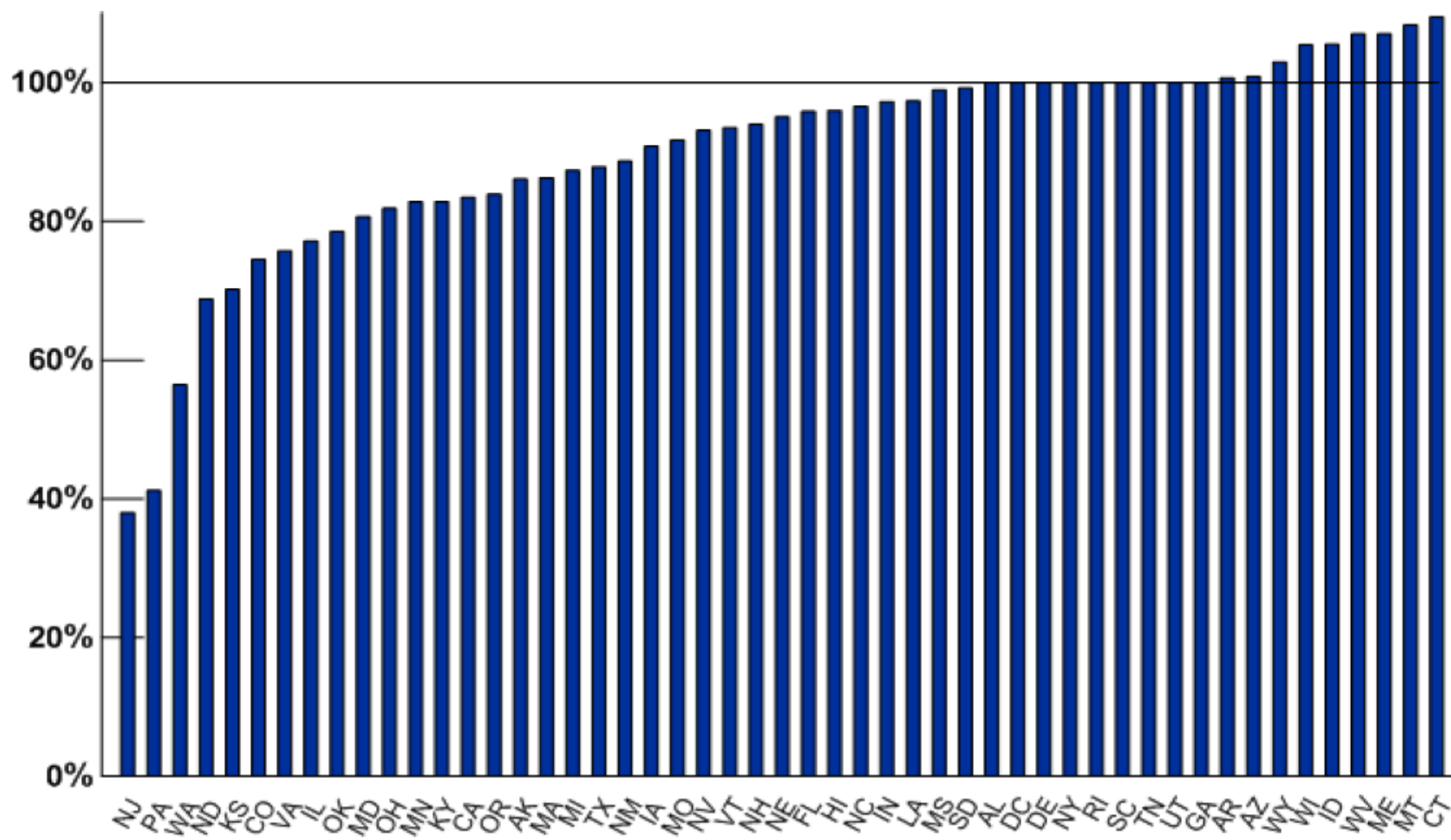
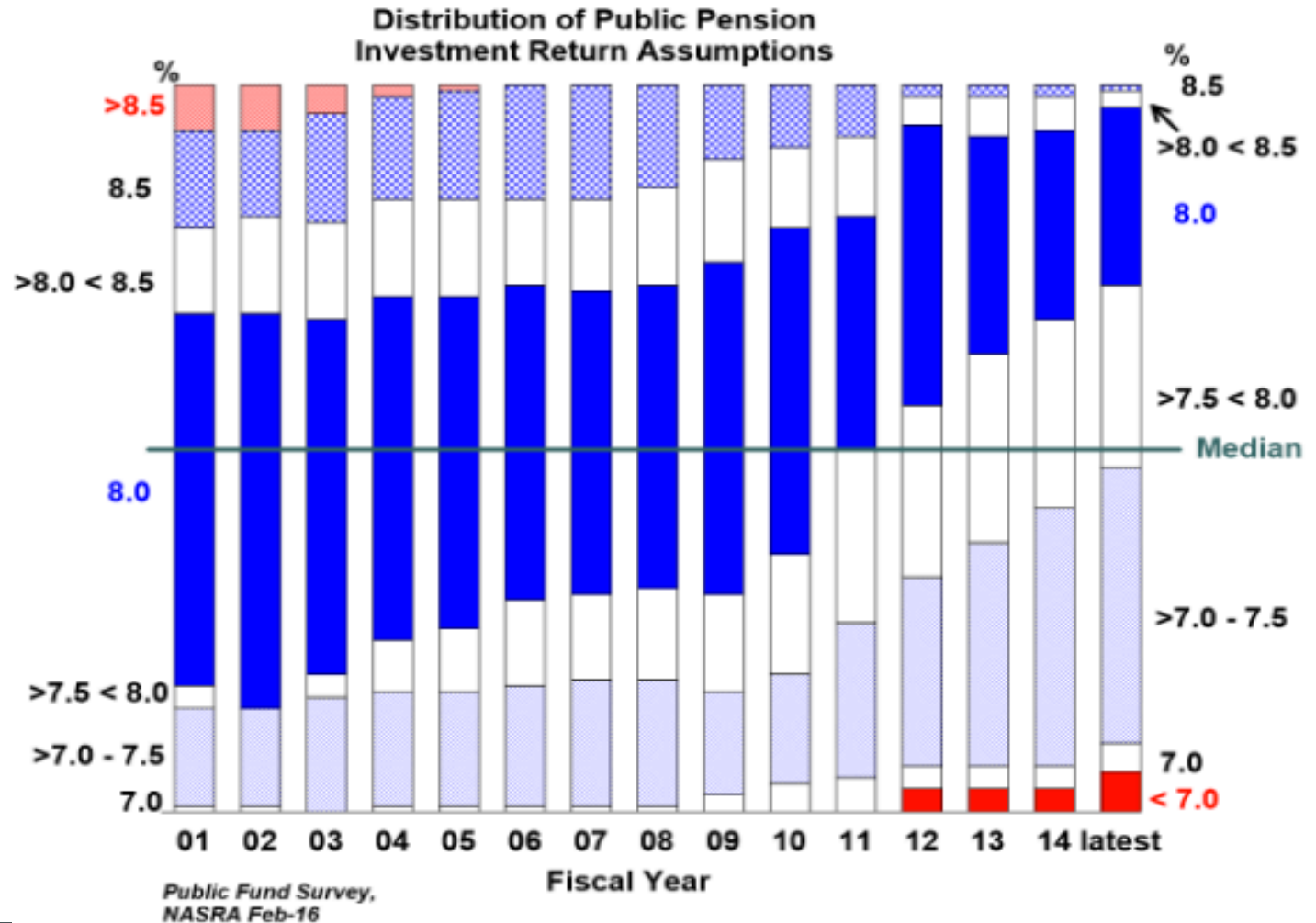


Figure C 1. Weighted average of Annual Required Contribution paid, by state

# Public Pensions – Downward Trend on Interest Assumption



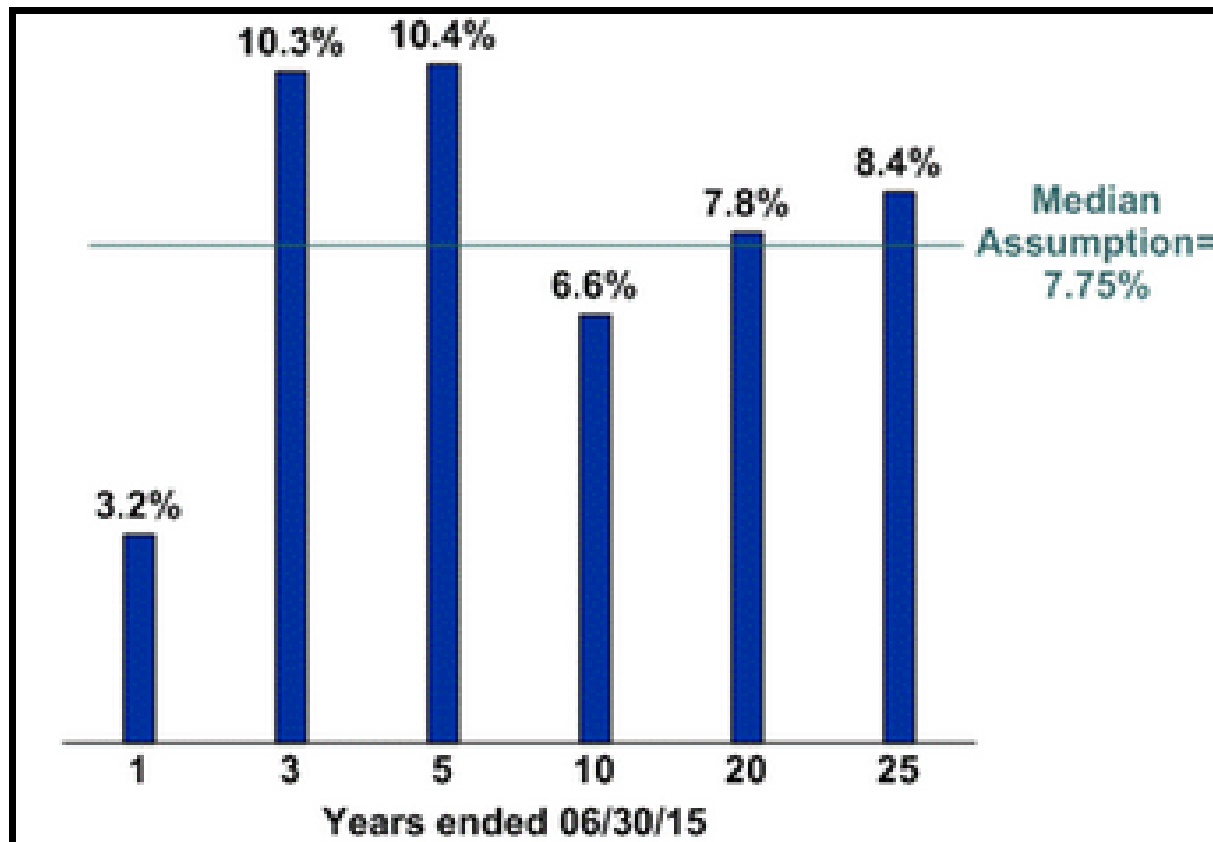
SOURCE: K. Brainerd and A. Brown, 2016 (Feb.), "Public Fund Survey," NASRA, Washington DC.

# Public Pensions – FY 2015

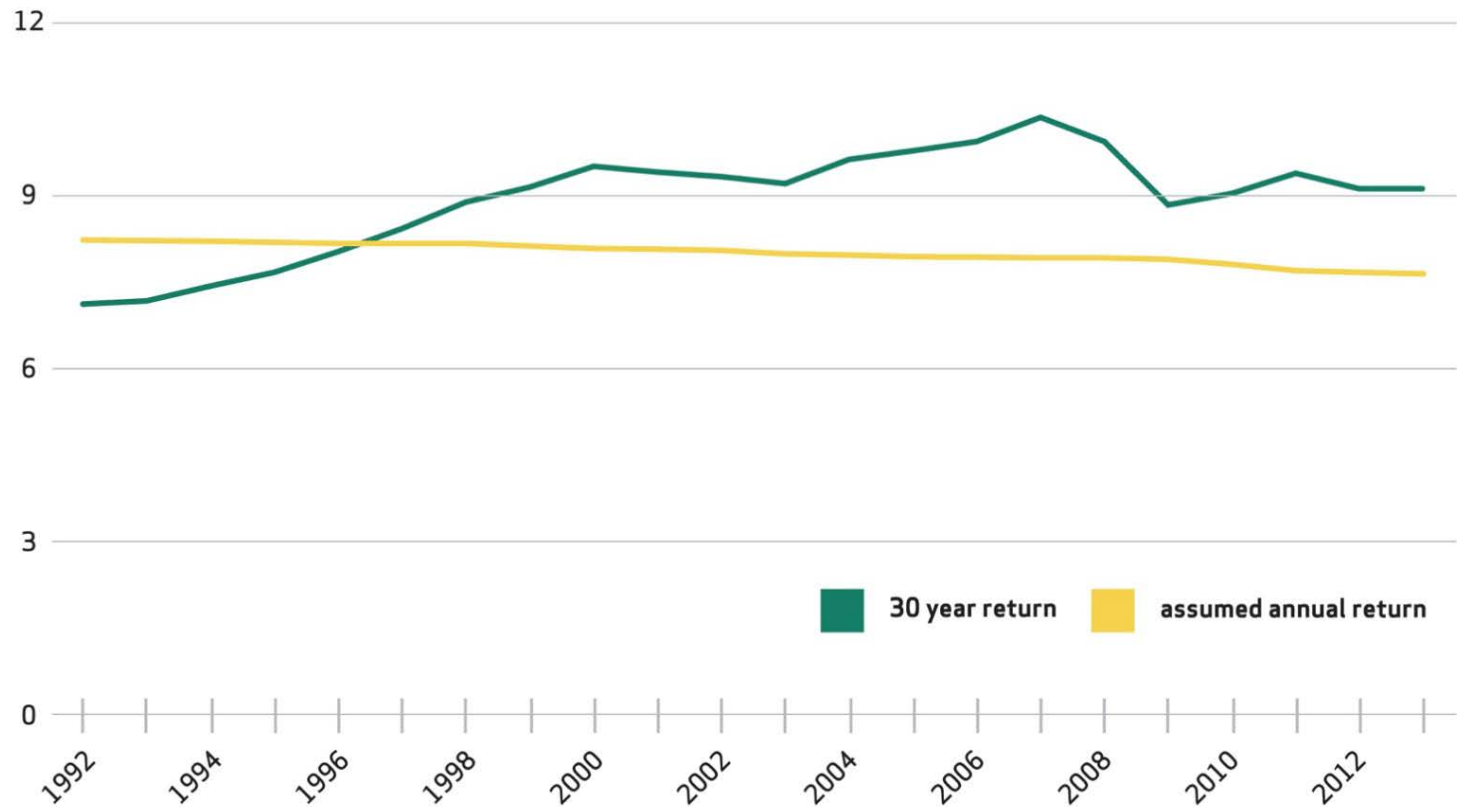
## Median Investment Returns

Oakley, Panel: State of Public Pensions and Its Impact on Collective Barg

**MEDIAN PUBLIC PENSION INVESTMENT RETURNS FOR PERIODS ENDED 6/30/15**



# State & Local Pensions Rolling 30-Year Investment ROR



Source: Census of Governments and Public Fund Database.

# Public Pension Reforms After 2008 Financial Crisis

Every State modified their DB pension:

- increased Employee contributions;
- reduced DB benefits for new hires, including higher retirement age
- Cost of Living Adjustment (COLA) reductions for retirees and existing worker
- Only a few states moved to hybrid plan and only one moved to a Defined Contribution plan.



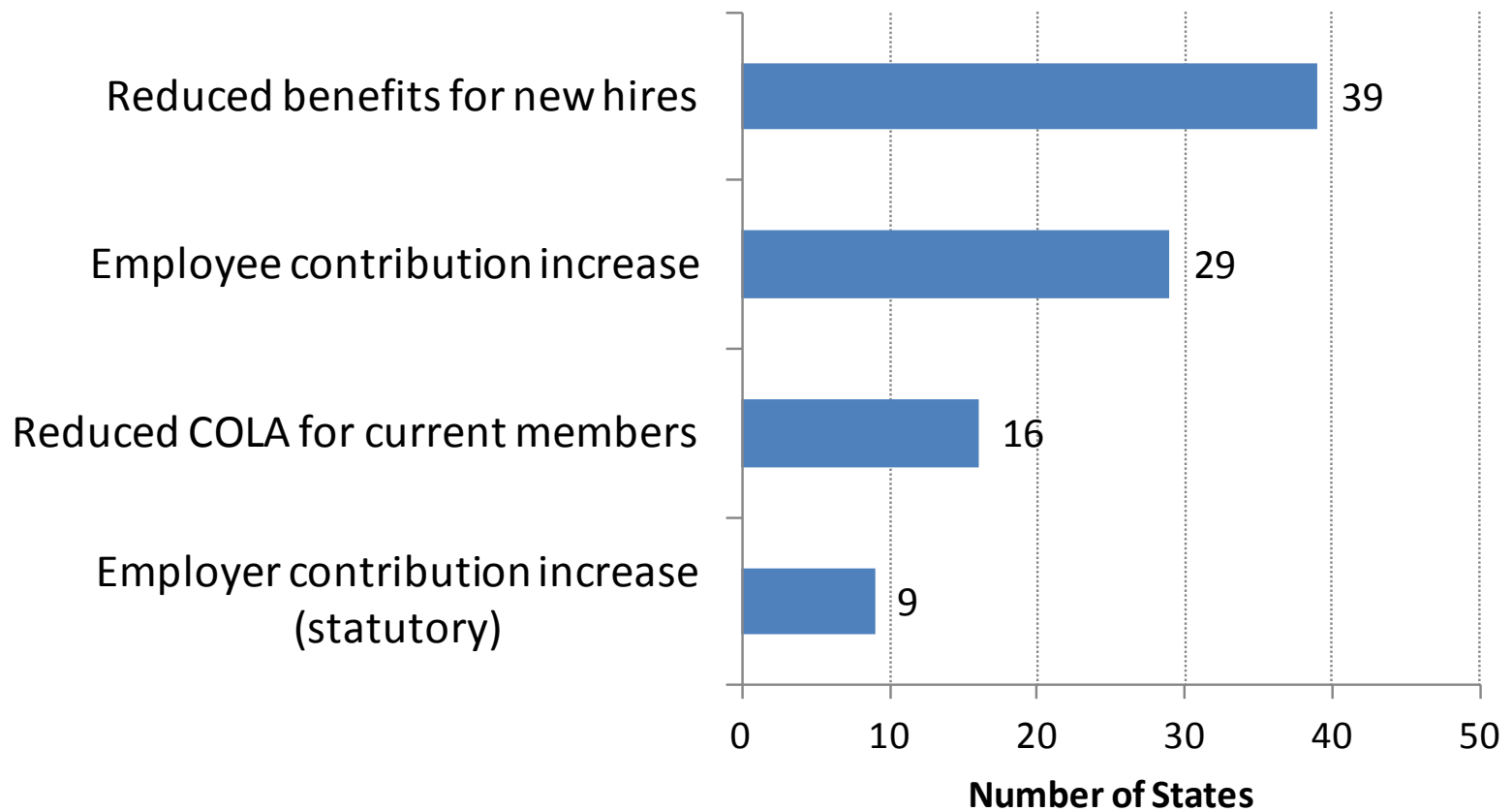
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# Reforms In States to Ensure Sustainability of Public Pensions

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## Types of Changes Enacted



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# Improvements in Public Pension Funding Anticipated over Time

## Impact of Public Pension Changes and Added Funding

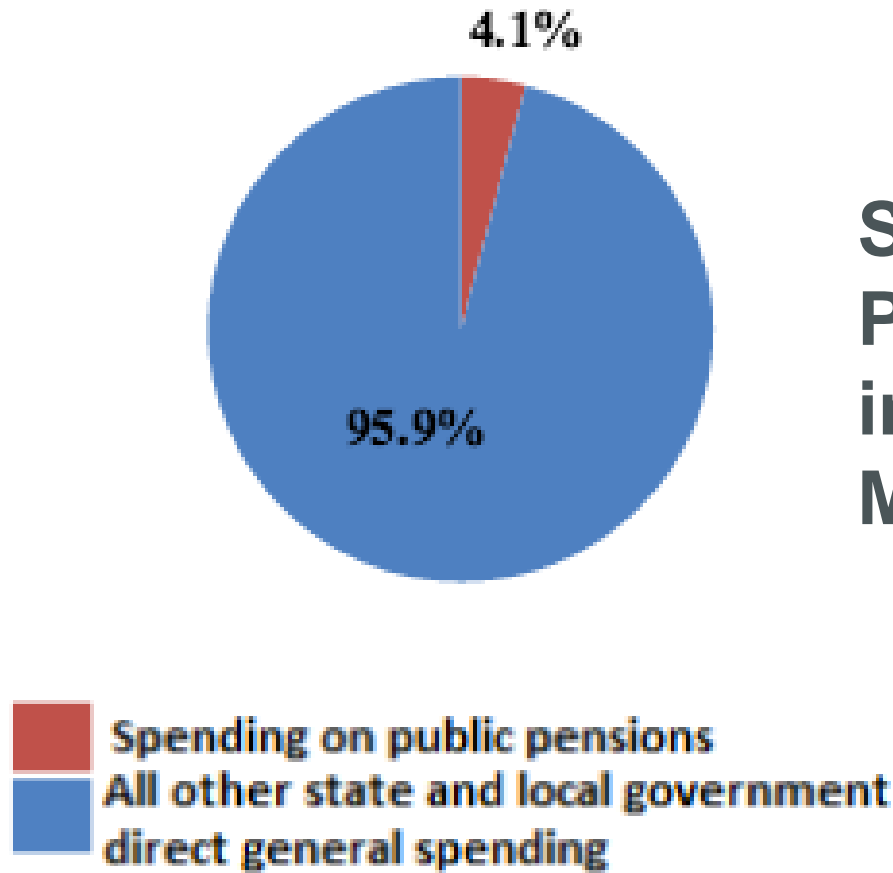
TABLE 2. PROJECTED FUNDED RATIOS FOR FY 2014-2017 UNDER GASB'S OLD AND NEW STANDARDS

Scenario and year	GASB old	GASB new	
		Market assets	Market assets/ combined rate
2013	72.0 %	75.3 %	64.9 %
Baseline			
2014	75.2	80.6	69.5
2015	77.4	81.6	70.4
2016	79.4	82.7	71.3
2017	81.2	83.7	72.1



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# Spending on Public Pensions as Percent of Total Direct Spending



**State and Local Pension Spending in 2013 Remains Modest.**



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